TAXNews

SLF

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Year-end tax planning reminders

As we approach the end of the calendar year, it is common to consider year-end tax planning. While it is not possible to cover all situations in a short newsletter, we thought it would be helpful to highlight 10 reminders in light of recent tax changes that have been enacted. The new passive investment income rules for private corporations were announced in the Federal 2018 Budget and are generally applicable for taxation years of private corporations beginning after 2018. In addition, changes have been made to the tax on split income (TOSI) rules that have greatly expanded their application and may generally apply to individuals (other than trusts) who are resident in Canada at the end of the year and earning certain amounts from corporations, trusts and partnerships. The expanded TOSI rules are applicable for the 2018 and subsequent taxation years and may apply for the first time in 2018. In order for these rules not to apply, the amount earned needs to be considered an excluded amount or you must not be considered a specified individual.

We encourage you to speak to your SLF advisor to get more information and or assistance with these changes as well as the 10 reminders discussed below.

1) If you are a business owner, consider your remuneration strategy and whether a salary and or a dividend make sense in your situation. There are a number of factors to consider and the decision has become even more complicated in light of the above mentioned tax changes.

2) The top Quebec personal combined marginal tax rate on eligible dividends is set to increase from 39.89% (for dividends received on or after March 28, 2018) to 40.00% in 2019 and 40.11% in 2020. Likewise, the top Quebec combined personal marginal tax rate on non-eligible dividends is set to increase from 44.83% (for dividends received on or after March 28, 2018) to 46.25% in 2019, 47.14% in 2020, and 48.02% in 2021. If you foresee a need for funds from your company in the near future, it will be slightly more expensive to receive a taxable dividend from your corporation in 2019 and subsequent years compared with receiving a taxable dividend in 2018. This is yet another factor that should be considered in determining your remuneration strategy for 2018.

3) If you will be claiming certain tax credits or deductions on your 2018 personal income returns, consider whether the expense must be paid by December 31, 2018 in order for you to benefit from such deductions or credits. For example charitable donations, medical expenses, investment counsel fees, custodial fees, childcare expenses, and alimony and maintenance payments are such expenses to name a few.

4) If you are saving for retirement or a particular expenditure, consider whether a qualifying contribution to a registered retirement savings plan (RRSP) or a Tax Free Savings Plan (TFSA) is an appropriate vehicle for you. There are a number of specific rules governing such plans and each type of plan has its own specific tax benefits that might be available in your situation. The RRSP contribution limit for 2018 is $26,230 and increases to $26,500 in 2019. Qualifying deductible contributions to an RRSP for 2018 are required to be made by March 1, 2019. Also consider that the annual TFSA dollar limit is $5,500 for 2018 and increases to $6,000 for 2019. These plans may not be appropriate for U.S. citizens or U.S. green card holders resident in Canada.

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5) If you require a new asset to operate your business and are considering purchasing it in the near future, there are advantages of purchasing it before year end compared with a purchase at the beginning of the following year. If the asset is available for use, you may be able to benefit from a tax deduction for the wear and tear on the asset for the year that is ending rather than having to wait until the following taxation year to benefit from a capital cost allowance deduction. Considering the enhancements announced in the Federal November 21, 2018 Economic Statement, the asset may be able to be written off for tax purposes sooner than would otherwise be the case.

6) If you have realized significant net taxable capital gains in 2018 and still have losers in your portfolio, perhaps it is worthwhile investigating whether capital losses should be realized in the same taxation year. Although there are some rules to respect in order to recognize a capital loss for tax purposes, realizing capital losses, such that the allowable portion reduces the taxable capital gains in the same year, may reduce your taxable income to report for the year, then would otherwise be the case. Keep in mind that the settlement date is the date recognized for tax purposes for determining when the realization occurs for marketable securities – assuming a settlement period of two days, the latest trade day has to take place on December 27, 2018. Discussing such planning with your investment advisor is also important to determine if this strategy may work for you.

7) Changes were enacted for the treatment of work-in-progress (WIP) for professionals who are accountants, lawyers, notaries, medical doctors, dentists, veterinarians and chiropractors for taxation years beginning after March 21, 2017. The special election that was available for such professionals in valuing WIP will no longer be available and a special transitional rule may apply in recognizing how to value WIP over 5 years. These measures should be considered when determining your income from affected professional practices.

8) The new enacted passive investment income rules that are generally applicable for private corporations for taxation years beginning after 2018, will change how certain companies can recover refundable taxes on passive income. The refundable dividend tax on hand (RDTOH) will be split into an eligible RDTOH (ERDTOH) and non eligible RDTOH (NERDTOH). Transitional rules will apply to determine the opening ERDTOH and NERDTOH that will factor in any existing ending balance of RDTOH and the general rate income pool (GRIP) of the corporation. For taxation years beginning in 2019 and subsequent years, only non-eligible dividends paid will be available to recover NERDTOH and eligible dividends paid will only be available to recover ERDTOH. Planning before the end of the 2018 calendar year may be necessary in order to maximize the ERDTOH, so you should consider how these new rules will affect your corporation on a go forward basis.

9) Another aspect of the passive investment income rules, introduced an additional component used to calculate the available $500,000 business limit for Canadian-controlled private corporations (CCPC) when computing any small business deduction (SBD) for the corporation. A CCPC will need to compute its adjusted aggregate investment income (AAII) for the corporation and corporations associated with it for the taxation years that ended in the preceding calendar year of the corporation. Where the AAII is greater than $50,000, the business limit otherwise available will be reduced at a rate of $5 for every $1 of AAII exceeding $50,000. The business limit will be reduced to nil where AAII is $150,000 or more. These new rules may impact the amount of taxes your CCPC is required to pay for taxation years beginning in 2019 and should be considered in light of any year tax planning that may be necessary.

10) Our last reminder is for those individuals who you will turn 71 in 2018 and have RRSPs that will require them to convert their RRSP to a registered annuity or Registered Retirement Income Fund (RRIF) by December 31, 2018. There may be an opportunity that will allow you to continue to contribute and deduct RRSP contributions made to a spousal RRSP where your spouse is younger than 71 years in 2018 or it may be possible to make an extra contribution to your RRSP in 2018 that may be deductible in 2019 or future years where you have earned income in 2018. You should consider whether these opportunities are available to you given your particular situation.

We hope you find our 10 reminders useful in your year-end planning. Please do not hesitate to contact your SLF advisor with any questions you may have.

At this time we want to wish you a safe and happy holiday season and best wishes for 2019.

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